

**Section 1: 10-Q (FORM 10-Q)**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 29, 2015

Commission File Number: 001-36029



**Sprouts Farmers Market, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**32-0331600**  
(I.R.S. Employer  
Identification No.)

**5455 East High Street, Suite 111**  
**Phoenix, Arizona 85054**  
(Address of principal executive offices and zip code)

**(480) 814-8016**  
(Registrant's telephone number, including area code)

**11811 N. Tatum Boulevard, Suite 2400**  
**Phoenix, Arizona 85028**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 4, 2015, there were outstanding 153,325,853 shares of the registrant's common stock, \$0.001 par value per share.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 29, 2015**

**TABLE OF CONTENTS**

**PART I—FINANCIAL INFORMATION**

	<u>Page</u>
<u>Item 1. Financial Statements.</u>	
<u>Consolidated Balance Sheets as of March 29, 2015 and December 28, 2014 (unaudited)</u>	1
<u>Consolidated Statements of Operations for the thirteen weeks ended March 29, 2015 and March 30, 2014 (unaudited)</u>	2
<u>Consolidated Statements of Stockholders' Equity for the thirteen weeks ended March 29, 2015 and the year ended December 28, 2014 (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the thirteen weeks ended March 29, 2015 and March 30, 2014 (unaudited)</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	15
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	24
<u>Item 4. Controls and Procedures.</u>	25
<b><u>PART II—OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings.</u>	26
<u>Item 1A. Risk Factors.</u>	26
<u>Item 6. Exhibits.</u>	26
<u>Signatures</u>	28

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## Forward-Looking Statements

*This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to as the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to as the “Exchange Act”), including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, and plans and objectives of management. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “will,” “would,” “should,” “could,” “can,” “predict,” “potential,” “continue,” “objective,” or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors” included in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, and our other filings with the Securities and Exchange Commission. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

*As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, references to the “Company,” “Sprouts,” “we,” “us” and “our” refer to Sprouts Farmers Market, Inc. and, where appropriate, its subsidiaries.*

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	<u>March 29, 2015</u>	<u>December 28, 2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 177,719	\$ 130,513
Accounts receivable, net	26,332	14,091
Inventories	148,753	142,793
Prepaid expenses and other current assets	15,248	11,152
Deferred income tax asset	<u>33,930</u>	<u>35,580</u>
Total current assets	401,982	334,129
Property and equipment	454,723	454,889
Intangible assets	193,853	194,176
Goodwill	368,078	368,078
Other assets	<u>24,017</u>	<u>17,801</u>
Total assets	<u>\$1,442,653</u>	<u>\$ 1,369,073</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 149,497	\$ 112,877
Accrued salaries and benefits	24,632	29,687
Other accrued liabilities	43,368	41,394
Current portion of capital and financing lease obligations	4,267	29,136
Current portion of long-term debt	<u>7,753</u>	<u>7,746</u>
Total current liabilities	229,517	220,840
Long-term capital and financing lease obligations	120,408	121,562
Long-term debt	247,103	248,611
Other long-term liabilities	87,053	74,071
Deferred income tax liability	<u>18,606</u>	<u>18,600</u>
Total liabilities	<u>702,687</u>	<u>683,684</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Undesignated preferred stock; \$0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 200,000,000 shares authorized, 152,915,478 and 151,833,334 shares issued and outstanding, March 29, 2015 and December 28, 2014, respectively	153	152
Additional paid-in capital	560,157	543,048
Retained earnings	<u>179,656</u>	<u>142,189</u>
Total stockholders' equity	<u>739,966</u>	<u>685,389</u>
Total liabilities and stockholders' equity	<u>\$1,442,653</u>	<u>\$ 1,369,073</u>

The accompanying notes are an integral part of these consolidated financial statements.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**

	<u>Thirteen Weeks Ended</u>	
	<u>March 29, 2015</u>	<u>March 30, 2014</u>
Net sales	\$857,506	\$722,606
Cost of sales, buying and occupancy	599,713	498,747
Gross profit	257,793	223,859
Direct store expenses	163,190	138,231
Selling, general and administrative expenses	24,027	22,479
Store pre-opening costs	2,773	947
Store closure and exit costs	1,229	533
Income from operations	66,574	61,669
Interest expense	(5,868)	(6,467)
Other income	62	96
Income before income taxes	60,768	55,298
Income tax provision	(23,301)	(21,565)
Net income	<u>\$ 37,467</u>	<u>\$ 33,733</u>
Net income per share:		
Basic	\$ 0.25	\$ 0.23
Diluted	\$ 0.24	\$ 0.22
Weighted average shares outstanding:		
Basic	<u>152,235</u>	<u>147,759</u>
Diluted	<u>155,482</u>	<u>153,294</u>

The accompanying notes are an integral part of these consolidated financial statements.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**  
**(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
<b>Balances at December 29, 2013</b>	147,616,560	\$ 147	\$479,127	\$ 34,497	\$ 513,771
Net income	—	—	—	107,692	107,692
Issuance of shares under option plans	4,216,774	5	11,307	—	11,312
Excess income tax benefit for exercise of options	—	—	47,261	—	47,261
Tax effect of forfeiture of vested options in equity	—	—	(2)	—	(2)
Equity-based compensation	—	—	5,355	—	5,355
<b>Balances at December 28, 2014</b>	151,833,334	\$ 152	\$543,048	\$142,189	\$ 685,389
Net income	—	—	—	37,467	37,467
Issuance of shares under option plans	1,082,144	1	3,768	—	3,769
Excess income tax benefit for exercise of options	—	—	12,199	—	12,199
Equity-based compensation	—	—	1,142	—	1,142
<b>Balances at March 29, 2015</b>	<u>152,915,478</u>	<u>\$ 153</u>	<u>\$560,157</u>	<u>\$179,656</u>	<u>\$ 739,966</u>

The accompanying notes are an integral part of these consolidated financial statements.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(IN THOUSANDS)**

	<b>Thirteen Weeks Ended</b>	
	<b>March 29, 2015</b>	<b>March 30, 2014</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 37,467	\$ 33,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	15,853	13,026
Accretion of asset retirement obligation and closed facility reserve	79	40
Amortization of financing fees and debt issuance costs	339	394
Loss on disposal of property and equipment	272	727
Equity-based compensation	1,142	1,407
Deferred income taxes	1,657	6,463
Changes in operating assets and liabilities:		
Accounts receivable	(11,895)	(1,203)
Inventories	(5,960)	(3,198)
Prepaid expenses and other current assets	(4,098)	1,314
Other assets	(6,307)	(686)
Accounts payable	29,474	22,920
Accrued salaries and benefits	(5,055)	(631)
Other accrued liabilities and income taxes payable	1,962	(1,880)
Other long-term liabilities	13,154	3,840
Net cash provided by operating activities	<u>68,084</u>	<u>76,266</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(33,755)	(18,240)
Proceeds from sale of property and equipment	—	51
Net cash used in investing activities	<u>(33,755)</u>	<u>(18,189)</u>
<b>Cash flows from financing activities</b>		
Payments on term loan	(1,750)	(1,750)
Payments on capital lease obligations	(161)	(131)
Payments on financing lease obligations	(836)	(726)
Cash from landlord related to financing lease obligations	—	577
Excess tax benefit for exercise of stock options	12,199	14,783
Proceeds from the exercise of stock options	3,425	566
Net cash provided by financing activities	<u>12,877</u>	<u>13,319</u>
Net increase in cash and cash equivalents	47,206	71,396
Cash and cash equivalents at beginning of the period	<u>130,513</u>	<u>77,652</u>
Cash and cash equivalents at the end of the period	<u>\$177,719</u>	<u>\$149,048</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 5,564	\$ 6,062
Cash paid for income taxes	249	1
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Property and equipment in accounts payable	\$ 21,147	\$ 21,794
Property acquired through capital and financing lease obligations	—	4,377

The accompanying notes are an integral part of these consolidated financial statements.



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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. Basis of Presentation**

Sprouts Farmers Market, Inc., a Delaware corporation, through its subsidiaries, operates as a healthy grocery store that offers fresh, natural and organic food that includes fresh produce, bulk foods, vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, body care and natural household items catering to consumers' growing interest in eating and living healthier. The "Company" is used to refer collectively to Sprouts Farmers Market, Inc. and its subsidiaries.

The accompanying unaudited consolidated financial statements include the accounts of the Company in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements and are in the form prescribed by the Securities and Exchange Commission in instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair statement of the Company's financial position, results of operations and cash flows for the periods indicated. All material intercompany accounts and transactions have been eliminated in consolidation. Interim results are not necessarily indicative of results for any other interim period or for a full fiscal year. The information included in these consolidated financial statements and notes thereto should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto for the fiscal year ended December 28, 2014 included in the Company's Annual Report on Form 10-K, filed on February 26, 2015.

The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The Company reports its results of operations on a 52- or 53-week fiscal calendar ending on the Sunday closest to December 31. Fiscal year 2015 is a 53-week year, and Fiscal year 2014 was a 52-week year. The Company reports its results of operations on a 13-week quarter, except for 53-week fiscal years. The fourth quarter of fiscal 2015 will include 14 weeks.

For the thirteen weeks ended March 29, 2015 and the comparative period, the Company has offset the changes in balance sheet line items related to excess tax benefit with the excess tax benefit within the cash flows from operating activities.

The Company has one reportable and one operating segment.

The Company's business is subject to modest seasonality. Average weekly sales fluctuate throughout the year and are typically highest in the first half of the fiscal year. Produce, which contributed 25% of the Company's net sales for the thirteen weeks ended March 29, 2015, is generally more available in the first six months of the fiscal year due to the timing of peak growing seasons.

All dollar amounts are in thousands, unless otherwise noted.

**2. Recently Issued Accounting Pronouncements**

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 amends previous guidance related to the criteria for reporting a disposal as a discontinued operation by elevating the threshold for qualification for discontinued operations treatment to a disposal that represents a strategic shift that has a major effect on an organization's operations or financial results. This guidance also requires expanded disclosures for transactions that qualify as a discontinued operation and requires disclosure of individually significant components that are disposed of or held for sale but do not qualify for discontinued operations reporting. This guidance is effective prospectively for all disposals or components initially classified as held for sale in periods beginning on or after December 15, 2014, with early adoption permitted. The Company's adoption of this guidance did not have a material effect on its consolidated financial statements.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU No. 2014-09 provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, and estimating the amount of variable consideration to include in the transaction price attributable to each separate performance obligation. This guidance will be effective for the Company for its fiscal year 2017. The FASB recently announced a proposal to defer the effective date of this guidance by one year, with early adoption permitted. The Company is currently evaluating the potential impact of this guidance.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU No. 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. This guidance will be effective for the Company for its fiscal year 2017, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires an entity to present debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This guidance will be effective for the Company for its fiscal year 2017. Early adoption is permitted. The new guidance will be applied retrospectively to each prior period presented. The Company is currently evaluating the potential impact of this guidance.

### **3. Fair Value Measurements**

The Company records its financial assets and liabilities in accordance with the framework for measuring fair value in accordance with GAAP. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in the impairment analysis of goodwill, indefinite-lived intangible assets, long-lived assets and in the valuation of store closure and exit costs.

The determination of fair values of certain tangible and intangible assets for purposes of the Company's goodwill impairment evaluation as described above was based upon a step zero assessment. Closed facility reserves are recorded at net present value to approximate fair value which is classified as Level 3 in the hierarchy. The estimated fair value of the closed facility reserve is calculated based on the present value of the remaining lease payments and other charges using a weighted average cost of capital, reduced by estimated sublease rentals. The weighted average cost of capital was estimated using information from comparable companies and management's judgment related to the risk associated with the operations of the stores.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

Cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued salaries and benefits and other accrued liabilities approximate fair value because of the short maturity of those instruments. Based on open market transactions comparable to the Term Loan (as defined in Note 6, "Long-Term Debt"), the fair value of the long-term debt, including current maturities, approximates carrying value as of March 29, 2015 and December 28, 2014. The Company's estimates of the fair value of long-term debt (including current maturities) were classified as Level 2 in the fair value hierarchy.

**4. Accounts Receivable**

A summary of accounts receivable is as follows:

	As Of	
	March 29, 2015	December 28, 2014
Vendor	\$ 11,996	\$ 8,246
Receivables from landlords	8,994	1,993
Other	5,342	3,852
Total	<u>\$ 26,332</u>	<u>\$ 14,091</u>

The Company had recorded allowances for certain vendor receivables of \$0.3 million at both March 29, 2015 and December 28, 2014.

Other receivables at both March 29, 2015 and December 28, 2014, include amounts receivable for payroll taxes and exercise prices for options exercised but for which the cash was not received by the balance sheet date.

**5. Accrued Salaries and Benefits**

A summary of accrued salaries and benefits is as follows:

	As Of	
	March 29, 2015	December 28, 2014
Accrued payroll	\$ 11,614	\$ 9,196
Vacation	8,535	7,476
Bonus	3,791	12,138
Other	692	877
Total	<u>\$ 24,632</u>	<u>\$ 29,687</u>

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

**6. Long-Term Debt**

A summary of long-term debt is as follows:

Facility	Maturity	Interest Rate	As Of	
			March 29, 2015	December 28, 2014
<b>Senior Secured</b>				
Term Loan, net of original issue discount	April 23, 2020	Variable	\$254,856	\$ 256,357
\$60.0 million Revolving Credit Facility	April 23, 2018	Variable	—	—
<b>Total debt</b>			254,856	256,357
Less current portion			(7,753)	(7,746)
<b>Long-term debt, net of current portion</b>			<u>\$247,103</u>	<u>\$ 248,611</u>

Current portion of long-term debt is presented net of issue discount of \$1.0 million and \$1.0 million as of March 29, 2015 and December 28, 2014, respectively. The non-current portion of long-term debt is presented net of issue discount of \$3.6 million and \$3.9 million as of March 29, 2015 and December 28, 2014, respectively.

On April 17, 2015, the Company refinanced its Senior Secured Credit Facilities. See Note 14 “Subsequent Events” for additional details.

**Senior Secured Credit Facilities**

*April 2013 Refinancing*

On April 23, 2013, the Company’s subsidiary, Sprouts Farmers Markets Holdings, LLC (“Intermediate Holdings”), as borrower, refinanced (the “April 2013 Refinancing”) its former revolving credit facility and former term loan, by entering into a new credit facility (the “Credit Facility”). The Credit Facility provides for a \$700.0 million term loan (the “Term Loan”) and a \$60.0 million senior secured revolving credit facility (the “Revolving Credit Facility”).

The terms of the Credit Facility allow the Company, subject to certain conditions, to increase the amount of the term loans and revolving commitments thereunder by an aggregate incremental amount of up to \$160.0 million, plus an additional amount, so long as after giving effect to such increase, (i) in the case of incremental loans that rank pari passu with the initial term loans, the net first lien leverage ratio does not exceed 4.00 to 1.00, and (ii) in the case of incremental loans that rank junior to the initial Term Loan, the total leverage ratio does not exceed 5.25 to 1.00.

*Guarantees*

Obligations under the Credit Facility are guaranteed by the Company and all of its current and future wholly owned material domestic subsidiaries. Borrowings under the Credit Facility are secured by (i) a pledge by Sprouts of its equity interests in Intermediate Holdings and (ii) first-priority liens on substantially all assets of Intermediate Holdings and the subsidiary guarantors, in each case, subject to permitted liens and certain exceptions.

*Interest and Applicable Margin*

All amounts outstanding under the Credit Facility will bear interest, at the Company’s option, at a rate per annum equal to LIBOR (with a 1.00% floor with respect to Eurodollar borrowings under the Term Loan), adjusted for statutory reserves, plus a margin equal to 3.00%, or an alternate base rate, plus a margin equal to 2.00%, as set forth in the Credit Facility. These interest margins were reduced to their current levels (from 3.50% and 2.50%, respectively) effective August 2, 2013, as a result of (i) the consummation of the Company’s IPO, and (ii) the Company achieving a reduction in the net first lien leverage ratio to less than or equal to 2.75 to 1.00.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

*Payments and Prepayments*

The Term Loan will mature in April 2020 and will amortize at a rate per annum, in four equal quarterly installments, in an aggregate amount equal to 1.00% of the original principal balance, with the balance due on the maturity date.

Subject to exceptions set forth therein, the Credit Facility requires mandatory prepayments in amounts equal to (i) 50% (reduced to 25% if net first lien leverage is less than 3.00 to 1.00 but greater than 2.50 to 1.00 and 0% if net first lien leverage is less than 2.50 to 1.00) of excess cash flow (as defined in the Credit Facility) at the end of each fiscal year, (ii) 100% of the net cash proceeds from certain non-ordinary course asset sales by the Company or any subsidiary guarantor (subject to certain exceptions and reinvestment provisions) and (iii) 100% of the net cash proceeds from the issuance or incurrence of debt by the Company or any of its subsidiaries not permitted under the Credit Facility.

Voluntary prepayments of borrowings under the Credit Facility are permitted at any time, in agreed-upon minimum principal amounts. Prepayments will not be subject to premium or penalty (except LIBOR breakage costs, if applicable).

*Revolving Credit Facility*

The Credit Facility includes a \$60.0 million Revolving Credit Facility which matures in April 2018. The Revolving Credit Facility includes letter of credit and \$5.0 million swingline loan subfacilities. Letters of credit issued under the facility reduce the borrowing capacity on the total facility. There are no amounts outstanding on the Revolving Credit Facility at March 29, 2015. Letters of credit totaling \$2.5 million have been issued as of March 29, 2015 primarily to support the Company's insurance programs. Amounts available under the Revolving Credit Facility at March 29, 2015 totaled \$57.5 million.

Interest terms on the Revolving Credit Facility are the same as the Term Loan.

The Company capitalized debt issuance costs of \$1.1 million related to the Revolving Credit Facility, which are being amortized to interest expense over the term of the Revolving Credit Facility.

Under the terms of the Credit Facility, the Company is obligated to pay a commitment fee on the available unused amount of the Revolving Credit Facility commitments equal to 0.50% per annum.

*Covenants*

The Credit Facility contains financial, affirmative and negative covenants. The negative covenants include, among other things, limitations on the Company's ability to:

- incur additional indebtedness;
- grant additional liens;
- enter into sale-leaseback transactions;
- make loans or investments;
- merge, consolidate or enter into acquisitions;
- pay dividends or distributions;
- enter into transactions with affiliates;
- enter into new lines of business;
- modify the terms of subordinated debt or other material agreements; and
- change its fiscal year

Each of these covenants is subject to customary or agreed-upon exceptions, baskets and thresholds.

In addition, if the Company has any amounts outstanding under the Revolving Credit Facility as of the last day of any fiscal quarter, the Revolving Credit Facility requires the borrower to maintain a ratio of Revolving Facility Credit exposure to consolidated trailing 12-month EBITDA (as defined in the Credit Facility) of no more than 0.75 to 1.00 as of the end of each such fiscal quarter.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

The Company was in compliance with all applicable covenants under the Credit Facility as of March 29, 2015.

**7. Closed Facility Reserves**

The following is a summary of closed facility reserve activity during the thirteen weeks ended March 29, 2015 and fiscal year ended December 28, 2014:

	March 29, 2015	December 28, 2014
Beginning balance	\$ 1,785	\$ 4,713
Additions	1,144	688
Usage	(244)	(3,204)
Adjustments	68	(412)
Ending balance	<u>\$ 2,753</u>	<u>\$ 1,785</u>

Additions made during 2015 include remaining lease payments for the corporate support office relocation. Additions made during 2014 relate to the closure and relocation of one store and to the closure and relocation of the Texas warehouse, and usage during 2014 relates to lease payments made during the period for closed stores.

**8. Income Taxes**

The Company's effective tax rate for the thirteen weeks ended March 29, 2015 and March 30, 2014 was 38.3% and 39.0%, respectively. The primary reasons for the decrease in the effective tax rate were an increase in tax credits and enhanced charitable food contribution deductions.

Excess tax benefits associated with stock option exercises are credited to stockholders' equity. The Company uses the tax law ordering approach of intraperiod allocation to allocate the benefit of windfall tax benefits based on provisions in the tax law that identify the sequence in which those amounts are utilized for tax purposes. The income tax benefits resulting from stock awards that were credited to stockholders' equity were \$12.2 million for the thirteen weeks ended March 29, 2015, which included \$0.1 million of income tax benefits related to stock award activity prior to 2015. The income tax benefits resulting from stock awards that were credited to stockholders' equity were \$14.8 million for the thirteen weeks ended March 30, 2014. The excess tax benefits are not credited to stockholders' equity until the deduction reduces income taxes payable. An additional \$7.5 million of excess tax benefits were incurred during the thirteen weeks ended March 30, 2014, which were available to be recognized as a benefit through additional paid-in capital once the deduction reduced income taxes payable.

**9. Related-Party Transactions**

Two stockholders, including a member of the Company's board of directors, are investors in a company that is a supplier of coffee to the Company. During the thirteen weeks ended March 29, 2015 and March 30, 2014, purchases from this company were \$2.3 million and \$2.0 million, respectively. At both March 29, 2015 and March 30, 2014, the Company had recorded accounts payable due to this vendor of \$0.7 million.

One of our senior executives purchased stock in a technology supplier to the Company in January 2015. During the thirteen weeks ended March 29, 2015 and March 30, 2014, purchases from this company were \$1.3 million and \$0.9 million, respectively. At both March 29, 2015 and March 30, 2014, the Company had no receivable recorded from this vendor. At both March 29, 2015 and March 30, 2014, the Company had recorded accounts payable due to this vendor of \$0.2 million and \$0.1 million respectively.

**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

**10. Commitments and Contingencies**

The Company is exposed to claims and litigation matters arising in the ordinary course of business and uses various methods to resolve these matters that are believed to best serve the interests of the Company's stakeholders. The Company's primary contingencies are associated with self-insurance obligations. Self-insurance liabilities require significant judgment and actual claim settlements and associated expenses may differ from the Company's current provisions for loss.

**11. Stockholders' Equity**

**Secondary Offering**

On March 10, 2015, certain of the Company's stockholders completed a secondary public offering of 15,847,800 shares of common stock (the "March Secondary Offering"). The Company did not sell any shares or receive any proceeds in the March Secondary Offering.

**12. Net Income Per Share**

The computation of net income per share is based on the number of weighted average shares outstanding during the period. The computation of diluted net income per share includes the dilutive effect of share equivalents consisting of incremental shares deemed outstanding from the assumed exercise of options, assumed vesting of restricted stock units ("RSUs") and assumed vesting of performance stock awards ("PSAs").

A reconciliation of the numerators and denominators of the basic and diluted net income per share calculations is as follows (in thousands, except per share amounts):

	<b>Thirteen Weeks Ended</b>	
	<b>March 29, 2015</b>	<b>March 30, 2014</b>
<b>Basic net income per share:</b>		
Net income	<u>\$ 37,467</u>	<u>\$ 33,733</u>
Weighted average shares outstanding	<u>152,235</u>	<u>147,759</u>
Basic net income per share	<u>\$ 0.25</u>	<u>\$ 0.23</u>
<b>Diluted net income per share:</b>		
Net income	<u>\$ 37,467</u>	<u>\$ 33,733</u>
Weighted average shares outstanding	<u>152,235</u>	<u>147,759</u>
Dilutive effect of equity-based awards:		
Assumed exercise of options to purchase shares	3,216	5,535
Restricted Stock Units ("RSU")	<u>31</u>	<u>—</u>
Weighted average shares and equivalent shares outstanding	<u>155,482</u>	<u>153,294</u>
Diluted net income per share	<u>\$ 0.24</u>	<u>\$ 0.22</u>

For the thirteen weeks ended March 29, 2015 the computation of diluted net income per share does not include 0.8 million options as those options would have been antidilutive or were unvested performance-based options and 0.1 million for PSAs. For the thirteen weeks ended March 30, 2014, the computation of diluted net income per share does not include 0.7 million options, as those options would have been antidilutive or were unvested performance-based options.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

**13. Equity-Based Compensation**

***2013 Incentive Plan***

The Company's board of directors adopted, and its equity holders approved, the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "2013 Incentive Plan"). The 2013 Incentive Plan became effective July 31, 2013 in connection with the Company's IPO and replaced the Sprouts Farmers Markets, LLC Option Plan (the "2011 Option Plan") (except with respect to outstanding options to acquire shares under the 2011 Option Plan). The 2013 Incentive Plan and 2011 Option Plan are collectively referred to as the "Option Plans". The 2013 Incentive Plan serves as the umbrella plan for the Company's stock-based and cash-based incentive compensation programs for its directors, officers and other team members.

On March 11, 2015, under the 2013 Incentive Plan, the Company granted to certain officers and team members time-based options to purchase an aggregate of 277,833 shares of common stock at an exercise price of \$34.33 per share, with a grant date fair value of \$9.42 per share. The Company also granted an aggregate of 87,394 RSUs with a grant date fair value of \$34.33, and 71,753 PSAs (as described below) with a grant date fair value of \$34.33.

The aggregate number of shares of common stock that may be issued to team members and directors under the 2013 Incentive Plan may not exceed 10,089,072. Shares subject to awards granted under the 2013 Incentive Plan which are subsequently forfeited, expire unexercised or are otherwise not issued will not be treated as having been issued for purposes of the share limitation.

***2011 Option Plan***

In May 2011, the Company adopted the 2011 Option Plan to provide team members or directors of the Company with options to acquire shares of the Company. The Company had authorized 12,100,000 shares for issuance under the 2011 Option Plan. Options may no longer be issued under the 2011 Option Plan.

***Options***

The Company uses the Black-Scholes option pricing model to estimate the fair value of options at grant date. Options vest in accordance with the terms set forth in the grant letter and vary depending on if they are time-based or performance-based.

Time-based options generally vest ratably over a period of 12 quarters (three years) and performance-based options vest over a period of three years based on financial performance targets set for each year.

***RSUs***

The fair value of RSUs is based on the closing price of the Company's common stock on the grant date. RSUs generally vest annually over a period of two or three years from the grant date.

***PSAs***

Performance stock awards are restricted shares that are subject to the Company achieving certain earnings per share performance targets to be earned. The fair value of performance stock awards is based on the closing price of the Company's common stock on the grant date. The performance conditions must be met at the end of the next fiscal year, or the performance stock awards are cancelled. If the performance conditions are met, the performance stock awards vest 50 percent at each of the second and third anniversary of the grant date.



**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

**Equity-based Compensation Expense**

Equity-based compensation expense was reflected in the consolidated statements of operations as follows:

	Thirteen Weeks Ended	
	March 29, 2015	March 30, 2014
Cost of sales, buying and occupancy	\$ 101	\$ 197
Direct store expenses	183	136
Selling, general and administrative expenses	858	1,074
Equity-based compensation expense before income taxes	1,142	1,407
Income tax benefit	(446)	(563)
Net equity-based compensation expense	<u>\$ 696</u>	<u>\$ 844</u>

As of March 29, 2015 and December 28, 2014, there were approximately 6.0 million and 6.9 million options outstanding of which, 1.0 million and 0.9 million were unvested options, respectively.

As of March 29, 2015 and December 28, 2014, there were approximately 0.1 million and 0.1 million unvested RSUs outstanding, respectively.

As of March 29, 2015 and December 28, 2014, there were approximately 0.1 million and no unvested performance stock awards outstanding, respectively.

As of March 29, 2015, total unrecognized compensation expense related to outstanding options was \$5.3 million which, if the service and performance conditions are fully met, is expected to be recognized over the next 1.6 years on a weighted-average basis.

As of March 29, 2015, total unrecognized compensation expense related to outstanding RSUs was \$5.1 million which, if the service conditions are fully met, is expected to be recognized over the next 2.1 years on a weighted-average basis.

As of March 29, 2015, total unrecognized compensation expense related to outstanding PSAs was \$2.4 million which, if the performance conditions are fully met, is expected to be recognized over the next 2.5 years on a weighted-average basis.

During the thirteen weeks ended March 29, 2015, the Company received \$3.4 million in cash proceeds from the exercise of options.

During the thirteen weeks ended March 30, 2014, the Company received \$0.6 million in cash proceeds from the exercise of options.

On March 28, 2014, team members exercised a total of 1.6 million options and sold shares acquired in that exercise in a secondary offering of the Company's common stock. Proceeds from such exercises, totaling \$3.4 million were received subsequent to March 30, 2014, when the offering closed on April 2, 2014.

**14. Subsequent Events**

On April 17, 2015 the Company completed a new five-year \$450.0 million revolving credit facility to replace its existing Term Loan and Revolving Credit Facility. The Company utilized the initial drawing of \$260.0 million under the new credit facility to pay off its existing \$257.8 million term loan and transaction costs associated with the refinancing. Upon completion of the refinancing, the Company has \$260.0 million of total debt and \$2.5 million of letters of credit outstanding under the new facility, which will mature on April 17, 2020.

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**SPROUTS FARMERS MARKET, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED) — continued**

The revolver has an initial drawn pricing of LIBOR plus 1.75%, as compared with LIBOR (with a floor of 1.00%) plus 3.00% under the previous term loan.

The Company will write-off \$5.5 million of deferred financing costs and original issue discount in the second quarter of fiscal 2015 related to the termination of the Term Loan and Revolving Credit Facility.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K filed February 26, 2015 with the Securities and Exchange Commission. All dollar amounts included below are in thousands, unless otherwise noted.

### Business Overview

Sprouts Farmers Market, Inc. operates as a healthy grocery store that offers fresh, natural and organic food that includes fresh produce, bulk foods, vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, body care and natural household items catering to consumers' growing interest in eating and living healthier. Since our founding in 2002, we have grown rapidly, significantly increasing our sales, store count and profitability. With 200 stores in twelve states as of March 29, 2015, we are one of the largest specialty retailers of natural and organic food in the United States.

The cornerstones of our business are fresh, natural and organic products at compelling prices (which we refer to as "Healthy Living for Less"), an attractive and differentiated shopping experience, and knowledgeable team members who we believe provide best-in-class customer service and product education.

*Healthy Living for Less.* We offer high-quality, fresh, natural and organic products at attractive prices in every department. Consistent with our farmers market heritage, our offering begins with fresh produce, which we source, warehouse and distribute in-house and sell at prices we believe to be significantly below those of other food retailers. In addition, our scale, operating structure and deep industry relationships position us to consistently deliver "Healthy Living for Less" throughout the store. Based on our experience, we believe we attract a broad customer base, including conventional supermarket customers, and appeal to a much wider demographic than other specialty retailers of natural and organic food. We believe that over time, our compelling prices and product offering convert many "trial" customers into loyal "lifestyle" customers who shop Sprouts with greater frequency and across an increasing number of departments.

*Attractive, Differentiated Shopping Experience.* In a convenient, small-box format (average store size of 28,000 to 30,000 sq. ft.), our stores have a farmers market feel, with a bright open-air atmosphere to create a comfortable and engaging in-store experience. We strive to be our customers' everyday healthy grocery store. We feature fresh produce and bulk foods at the center of the store surrounded by a complete grocery offering, including vitamins and supplements, grocery, meat and seafood, bakery, dairy, frozen foods, beer and wine, body care and natural household items. Consistent with our fresh, natural and organic offering, we choose not to carry most of the traditional, national branded consumer packaged goods generally found at conventional grocery retailers (e.g., Doritos, Tide and Lucky Charms). Instead, we offer high-quality, healthier alternatives that emphasize our focus on fresh, natural and organic products at great values.

*Customer Service and Education.* We are dedicated to our mission of "Healthy Living for Less," and we attract team members who share our passion for educating and serving our customers with the goal of making healthy eating easier and more accessible. We believe our well-trained and engaged team members help our customers increasingly understand that they can purchase a wide selection of high-quality, healthy, and great tasting food for themselves and their families at attractive prices by shopping at Sprouts.

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## Outlook

We are pursuing a number of strategies designed to continue our growth, including expansion of our store base, driving comparable store sales growth, enhancing our operating margins and growing the Sprouts brand. We intend to continue expanding our store base by pursuing new store openings in our existing markets, expanding into adjacent markets and penetrating new markets. We opened 24 stores and relocated one store during 2014. We expect to continue to expand our store base with 27 store openings planned in fiscal 2015, of which 15 have opened as of the date of this Quarterly Report on Form 10-Q. Although we plan to expand our store base primarily through new store openings, we may grow through strategic acquisitions if we identify suitable targets and are able to negotiate acceptable terms and conditions for acquisition. We intend to achieve 14% annual new store growth for at least the next five years.

We also believe we can continue to improve our comparable store sales growth by enhancing our core value proposition and distinctive customer-oriented shopping experience, as well as through expanding and refining our fresh, natural and organic product offerings, our targeted and personalized marketing efforts and our in-store education. We believe our operating margins will continue to benefit from scale efficiencies, continued cost discipline and enhancements to our merchandise offerings. We are committed to growing the Sprouts brand by supporting our stores, product offerings and corporate partnerships, including the expansion of innovative marketing and promotional strategies through print, digital and social media platforms, all of which promote our mission of “Healthy Living for Less.”

## Our History

In 2002, we opened the first Sprouts Farmers Market store in Chandler, Arizona. In 2010, we had 54 stores and reached over \$620 million in net sales and approximately 3,700 team members. In April 2011, we partnered with investment funds affiliated with, and co-investment vehicles managed by, Apollo Management VI, L.P., and added 43 stores by merging with Henry’s Holdings, LLC and its Sun Harvest-brand stores. Our merger with Henry’s Holdings, LLC and new store openings brought us to 103 total stores located in Arizona, California, Colorado and Texas as of the end of 2011. In May 2012, we added another 37 stores through our acquisition of Sunflower Farmers Markets, Inc. and extended our footprint into New Mexico, Nevada, Oklahoma and Utah. On August 1, 2013, our common stock began trading on the NASDAQ Global Select Market and on August 6, 2013, we closed our initial public offering (referred to as our “IPO”). Since the IPO, we have continued to expand, adding 43 stores through the date of this filing and extending to Kansas, Georgia, Missouri and Alabama.

## Components of Operating Results

We report our results of operations on a 52- or 53-week fiscal year ending on the Sunday closest to December 31, with each fiscal quarter generally divided into three periods consisting of two four-week periods and one five-week period. The first quarters of fiscal 2015 and 2014 were thirteen-week periods ended March 29, 2015 and March 30, 2014, respectively.

### **Net Sales**

We recognize sales revenue at the point of sale, with discounts provided to customers reflected as a reduction in sales revenue. Proceeds from sales of gift cards are recorded as a liability at the time of sale, and recognized as sales when they are redeemed by the customer. We do not include sales taxes in net sales.

We monitor our comparable store sales growth to evaluate and identify trends in our sales performance. Our practice is to include sales from a store in comparable store sales beginning on the first day of the 61st week following the store’s opening and to exclude sales from a closed store from comparable store sales beginning on the day of closure. We include sales from an acquired store in comparable store sales on the later of (i) the day of acquisition or (ii) the first day of the 61st week following the store’s opening. We also include sales from relocated stores immediately after relocation. These practices may differ from the methods that other retailers use to calculate similar measures.

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Net sales are affected by store openings and closings and comparable store sales growth. Factors that influence comparable store sales growth and other sales trends include:

- general economic conditions and trends, including levels of disposable income and consumer confidence;
- consumer preferences and buying trends;
- our ability to identify market trends, and to source and provide product offerings that promote customer traffic and growth in average ticket;
- the number of customer transactions and average ticket;
- the prices of our products, including the effects of inflation and deflation;
- opening new stores in the vicinity of our existing stores;
- advertising, in-store merchandising and other marketing activities; and
- our competition, including competitive store openings in the vicinity of our stores and competitor pricing and merchandising strategies.

### ***Cost of sales, buying and occupancy and gross profit***

Cost of sales includes the cost of inventory sold during the period, including direct costs of purchased merchandise (net of discounts and allowances), distribution and supply chain costs, buying costs and supplies. Merchandise incentives received from vendors are reflected in the carrying value of inventory when earned or as progress is made toward earning the rebate or allowance, and are reflected as a component of cost of sales as the inventory is sold. Inflation and deflation in the prices of food and other products we sell may affect our gross profit and gross margin. The short-term impact of inflation and deflation is largely dependent on whether or not we pass the effects through to our customers, which will depend upon competitive market conditions.

Occupancy costs include store rental, property taxes, utilities, common area maintenance, amortization of favorable and unfavorable leasehold interests and property insurance. Occupancy costs do not include building depreciation, which is classified as a direct store expense.

Our cost of sales, buying and occupancy and gross profit are correlated to sales volumes. As sales increase, gross margin is affected by the relative mix of products sold, pricing strategies, inventory shrinkage and improved leverage of fixed costs of sales, buying and occupancy.

### ***Direct store expenses***

Direct store expenses consist of store-level expenses such as salaries and benefits, related equity-based compensation, supplies, depreciation and amortization for buildings, store leasehold improvements, equipment and other store specific costs. As sales increase, direct store expenses generally decline as a percentage of sales.

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses primarily consist of salaries and benefits costs, equity-based compensation, advertising and corporate overhead.

We charge third-parties to place advertisements in our in-store guide and newspaper circulars. We record consideration received from vendors in connection with cooperative advertising programs as a reduction to advertising costs when the allowance represents reimbursement of a specific and identifiable cost. Advertising costs are expensed as incurred.

### ***Store pre-opening costs***

Store pre-opening costs include rent expense during construction of new stores and costs related to new store openings, including costs associated with hiring and training personnel and other miscellaneous costs. Store pre-opening costs are expensed as incurred.

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**Store closure and exit costs**

We recognize a reserve for future operating lease payments and other occupancy costs associated with facilities that are no longer being utilized in our current operations. The reserve is recorded based on the present value of the remaining non-cancelable lease payments and estimates of other occupancy costs after the cease use date less an estimate of subtenant income. If subtenant income is expected to be higher than the lease payments, no accrual is recorded. Lease payments and other occupancy costs included in the closed facility reserve are expected to be paid over the remaining terms of the respective leases. Our assumptions about subtenant income are based on our experience and knowledge of the area in which the closed property is located, guidance received from local brokers and agents and existing economic conditions. Adjustments to the closed facility reserve relate primarily to changes in actual or estimated subtenant income and changes in actual lease payments and other occupancy costs from original estimates. Adjustments are made for changes in estimates in the period in which the change becomes known, considering timing of new information regarding market, subleases or other lease updates. Changes in reserve estimates are classified as store closure and exit costs in the consolidated statements of operations.

**Provision for income taxes**

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. The amount of taxes currently payable or refundable is accrued and deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets are also recognized for realizable loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in our financial statements in the period that includes the enactment date.

**Factors Affecting Comparability of Results of Operations****Secondary Offerings**

On March 10, 2015, certain of our stockholders completed a secondary public offering of 15,847,800 shares of common stock at a price of \$35.30 per share (referred to as the "March 2015 Secondary Offering").

On April 2, 2014, certain of our stockholders completed a secondary public offering of 17,250,000 shares of common stock, including 2,250,000 shares of common stock sold as a result of the exercise in full of the underwriters' option to purchase additional shares, at a price of \$33.75 per share (referred to as the "April 2014 Secondary Offering"). Expenses related to the April 2014 Secondary Offering were incurred and recorded during the thirteen weeks ended March 30, 2014.

We did not sell any shares in the March 2015 or April 2014 Secondary Offerings.

## Results of Operations for Thirteen Weeks Ended March 29, 2015 and March 30, 2014

The following tables set forth our unaudited results of operations and other operating data for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods. All dollar amounts are in thousands, unless otherwise noted.

	Thirteen weeks ended	
	March 29, 2015	March 30, 2014
<b>Unaudited Quarterly Consolidated Statement of Operations Data:</b>		
Net sales	\$ 857,506	\$ 722,606
Cost of sales, buying and occupancy	599,713	498,747
Gross profit	257,793	223,859
Direct store expenses	163,190	138,231
Selling, general and administrative expenses	24,027	22,479
Store pre-opening costs	2,773	947
Store closure and exit costs	1,229	533
Income from operations	66,574	61,669
Interest expense	(5,868)	(6,467)
Other income	62	96
Income before income taxes	60,768	55,298
Income tax provision	(23,301)	(21,565)
Net income	\$ 37,467	\$ 33,733

	Thirteen weeks ended	
	March 29, 2015	March 30, 2014 (2)
<b>Comparable store sales growth(1)</b>	4.8%	12.8%
<b>Other Operating Data:</b>		
Stores at beginning of period	191	167
Closed	(1)	—
Opened	10	4
Stores at end of period	200	171

- (1) See the explanation of "Comparable store sales growth" above under "Components of Operating Results – Net Sales."  
(2) During the thirteen weeks ended March 30, 2014, we also relocated one store.

### Comparison of Thirteen Weeks Ended March 29, 2015 to Thirteen Weeks Ended March 30, 2014

#### Net sales

	Thirteen weeks ended		Change	% Change
	March 29, 2015	March 30, 2014		
Net sales	\$ 857,506	\$ 722,606	\$134,900	19%
Comparable store sales growth	4.8%	12.8%		

Net sales increased during the thirteen weeks ended March 29, 2015 as compared to the thirteen weeks ended March 30, 2014, primarily as a result of (i) new store openings after March 30, 2014 and (ii) sales growth at stores operated prior to March 30, 2014. New store openings after March 30, 2014 contributed \$97.8 million, or 72%, of the increase in net sales during the thirteen weeks ended March 29, 2015. Additionally, \$37.1 million, or 28%, of the increase came from comparable store sales growth and new store openings during fiscal 2014 not yet reflected in comparable store sales.

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**Cost of sales, buying and occupancy and gross profit**

	Thirteen weeks ended		Change	% Change
	March 29, 2015	March 30, 2014		
Net sales	\$ 857,506	\$ 722,606	\$134,900	19%
Cost of sales, buying and occupancy	599,713	498,747	100,966	20%
Gross profit	257,793	223,859	33,934	15%
Gross margin	30.1%	31.0%	(0.9)%	

Cost of sales, buying and occupancy increased during the thirteen weeks ended March 29, 2015 compared to the thirteen weeks ended March 30, 2014, primarily due to the increase in sales from new store openings and comparable store sales growth, as discussed above. Gross profit increased \$33.9 million as a result of increased sales volume. The gross margin decrease was primarily driven by produce tightness due to adverse weather conditions and West coast port strikes that limited product availability compared to a very strong produce season in the prior year, the timing of store openings resulting in a lower blended gross margin, and impact of continued price investments in certain categories.

**Direct store expenses**

	Thirteen weeks ended		Change	% Change
	March 29, 2015	March 30, 2014		
Direct store expenses	\$ 163,190	\$ 138,231	\$24,959	18%
Percentage of net sales	19.0%	19.1%	(0.1)%	

Direct store expenses increased \$25.0 million, primarily due to \$20.7 million of direct store expenses related to stores opened since March 30, 2014 and a \$4.3 million increase in direct store expenses associated with stores operated prior to the thirteen weeks ended March 30, 2014. Direct store expenses, as a percentage of net sales, decreased 10 basis points primarily due to lower losses on disposal of assets. Additionally, leverage in labor and store operating costs at pre-2014 vintage stores was offset by higher labor costs at new stores and higher investments in employee training costs.



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**Selling, general and administrative expenses**

	Thirteen weeks ended		Change	% Change
	March 29, 2015	March 30, 2014		
Selling, general and administrative expenses	\$ 24,027	\$ 22,479	\$1,548	7%
Percentage of net sales	2.8%	3.1%	(0.3)%	

The increase in selling, general and administrative expenses included \$1.7 million for advertising expense, \$1.4 million for corporate payroll to support growth and bring in outsourced functions and \$0.8 million for regional administration expense due to additional store count and growth into new regions; these increases were partially offset by a \$1.1 million decrease in secondary offering expenses in current year compared to prior year and a \$0.7 million decrease in bonus accrual primarily due to actual payments lower than expected. Selling, general and administrative expenses decreased as a percent of net sales due to lower secondary offering expenses and lower bonus expense partially offset by higher advertising expense for new stores.

**Store pre-opening costs**

Store pre-opening costs were \$2.8 million for the thirteen weeks ended March 29, 2015 and \$0.9 million for the thirteen weeks ended March 30, 2014. Store pre-opening costs in the thirteen weeks ended March 29, 2015 included \$2.2 million related to opening 10 stores during that period and \$0.6 million associated with stores opening the next quarter. Store pre-opening costs in the thirteen weeks ended March 30, 2014 included \$0.8 million related to opening four stores and relocating one store during that period and \$0.1 million associated with stores opening during the next quarter.

**Store closure and exit costs**

Store closure and exit costs for the thirteen weeks ended March 29, 2015 includes \$1.1 million for the relocation of our support office. Store closure and exit costs for the thirteen weeks ended March 30, 2014 included \$0.4 million for relocation of one store.

**Interest expense**

Interest expense decreased to \$5.9 million for the thirteen weeks ended March 29, 2015 from \$6.5 million for the thirteen weeks ended March 30, 2014. The decrease in interest expense is due to the lower principal balance on our Term Loan.

**Income tax provision**

Income tax provision increased to \$23.3 million for the thirteen weeks ended March 29, 2015 from \$21.6 million for the thirteen weeks ended March 30, 2014, primarily related to an increase in income before income taxes. Our effective income tax rate decreased to 38.3% in the thirteen weeks ended March 29, 2015 from 39.0% in the thirteen weeks ended March 30, 2014. The primary reasons for the decrease in the effective tax rate were an increase in tax credits and enhanced charitable food contribution deductions.

## Net income

	Thirteen weeks ended		Change	% Change
	March 29, 2015	March 30, 2014		
Net income	\$ 37,467	\$ 33,733	\$3,734	11%
Percentage of net sales	4.4%	4.7%	(0.3)%	

Net income growth was driven by sales growth and resulting operating leverage, strong performance of new stores opened, reduced interest expense and lower secondary offering expenses slightly offset by increases in advertising and corporate and regional expense to support our growth into new markets.

## Liquidity and Capital Resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below, as well as our cash and cash equivalents at the end of each period:

	Thirteen weeks ended	
	March 29, 2015	March 30, 2014
Cash and cash equivalents at end of period	\$ 177,719	\$ 149,048
Cash provided by operating activities	\$ 68,084	\$ 76,266
Cash used in investing activities	\$ (33,755)	\$ (18,189)
Cash provided by (used in) financing activities	\$ 12,877	\$ 13,319

Since inception, we have financed our operations primarily through cash generated from our operations, sales of our equity and borrowings under our current and former credit facilities. Our primary uses of cash are for purchases of inventory, operating expenses, capital expenditures primarily for opening new stores, remodel and maintenance capital expenditures, and debt service. We believe that our existing cash and cash equivalents, and cash anticipated to be generated by operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors, including new store openings, remodel and maintenance capital expenditures at existing stores, store initiatives and other corporate capital expenditures and activities. Our cash and cash equivalents position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within days from the related sale. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be adversely affected.

### Operating Activities

Net cash provided by operating activities decreased \$8.2 million to \$68.1 million for the thirteen weeks ended March 29, 2015 compared to \$76.3 million for the thirteen weeks ended March 30, 2014. The thirteen weeks ended March 29, 2015 includes the impact of stores opened since March 30, 2014. The decrease in net cash provided by operating activities was primarily due to an increase in working capital.

### Investing Activities

Net cash used in investing activities was \$33.8 million for the thirteen weeks ended March 29, 2015 compared to \$18.2 million for the thirteen weeks ended March 30, 2014. The increase in cash used for investing activities is primarily related to timing of payments on capital expenditures for new store openings, sales enhancing initiatives, capital expenditures for our new support office, store remodels and maintenance capital expenditures.

Capital expenditures consist primarily of investments in new stores, including leasehold improvements and store equipment, annual maintenance capital expenditures to maintain the appearance of our stores, sales enhancing initiatives and other corporate investments.

We expect capital expenditures of approximately \$110 million in fiscal 2015, net of estimated landlord tenant improvement allowances, primarily to fund investments in new stores, remodels, maintenance capital expenditures and corporate capital expenditures. We expect to fund our capital expenditures with cash on hand, cash generated from operating activities and, if required, borrowings under our Credit Facility.

### **Financing Activities**

Net cash provided by financing activities was \$12.9 million for the thirteen weeks ended March 29, 2015 compared to cash provided by financing activities of \$13.3 million for the thirteen weeks ended March 30, 2014. The decrease in cash provided by financing activities of \$0.4 million is related to a \$2.6 million decrease of excess tax benefits from the exercise of stock options, a \$0.6 million decrease in cash from landlord related to financing lease obligation and a \$0.1 million increase in payments on financing lease obligations. These decreases in cash used by financing activities were offset by a \$2.9 million increase in proceeds from the exercise of stock options.

### **Long-Term Debt and Credit Facilities**

See Note 6 "Long-Term Debt" of our unaudited consolidated financial statements for a description of the April 2013 Refinancing and our Credit Facility.

On April 17, 2015, we refinanced our Credit Facility. See Note 14 "Subsequent Events" of our unaudited consolidated financial statements for additional information about the refinancing.

### **Contractual Obligations**

We are committed under certain capital leases for the rental of certain buildings and land and certain operating leases for rental of facilities and equipment. These leases expire or become subject to renewal clauses at various dates through 2032.

The following table summarizes our lease obligations as of March 29, 2015, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years (in thousands)	4-5 Years	More Than 5 Years
Capital and financing lease obligations(1)	\$ 148,589	\$ 15,195	\$ 30,760	\$ 30,259	\$ 72,375
Operating lease obligations(1)	1,237,584	92,070	219,706	215,449	710,359
<b>Totals</b>	<b>\$1,386,173</b>	<b>\$107,265</b>	<b>\$250,466</b>	<b>\$245,708</b>	<b>\$782,734</b>

(1) Represents estimated payments for capital and financing and operating lease obligations as of March 29, 2015. Capital and financing lease obligations and operating lease obligations are presented gross without offset for subtenant rentals. We have subtenant agreements under which we will receive \$1.5 million for the period of less than one year, \$2.6 million for years one to three, \$1.6 million for years four to five, and \$1.8 million for the period beyond five years.

We have other contractual commitments and debt, which were presented under Contractual Obligations in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014, and for which there have not been material changes since that filing through March 29, 2015. As discussed in Note 14 to the unaudited financial statements we entered into a new revolving credit facility with an initial balance of \$260.0 million which will mature in April 2020.

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## Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities, nor do we have any interest in entities referred to as variable interest entities.

### Impact of Inflation

Inflation and deflation in the prices of food and other products we sell may affect our sales, gross profit and gross margin. The short-term impact of inflation and deflation is largely dependent on whether or not the effects are passed through to our customers, which is subject to competitive market conditions.

Food inflation and deflation is affected by a variety of factors and our determination of whether to pass on the effects of inflation or deflation to our customers is made in conjunction with our overall pricing and marketing strategies. Although we may experience periodic effects on sales, gross profit and gross margins as a result of changing prices, we do not expect the effect of inflation or deflation to have a material impact on our ability to execute our long-term business strategy.

### Seasonality

Our business is subject to modest seasonality. Our average weekly sales fluctuate throughout the year and are typically highest in the first half of the fiscal year. Produce, which contributed approximately 25% of our net sales for the thirteen weeks ended March 29, 2015, is generally more available in the first six months of our fiscal year due to the timing of peak growing seasons.

### Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, cash flow and related disclosure of contingent assets and liabilities. Our estimates include, but are not limited to, those related to inventory, lease assumptions, self-insurance reserves, sublease assumptions for closed facilities, goodwill and intangible assets, impairment of long-lived assets, fair values of equity-based awards and income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

There have been no substantial changes to these estimates or the policies related to them during the thirteen weeks ended March 29, 2015. For a full discussion of these estimates and policies, see "Critical Accounting Estimates" in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

### Recently Issued Accounting Pronouncements

See Note 2 "Recently Issued Accounting Pronouncements" to our accompanying unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q.

We have determined that all other recently issued accounting standards will not have a material impact on our financial statements, or do not apply to our operations.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As described in Note 6, "Long-Term Debt" to our unaudited consolidated financial statements located elsewhere in this Quarterly Report on Form 10-Q, we have a Term Loan that bears interest at a rate based in part on LIBOR, the Federal Funds Rate, the Eurodollar Rate or the prime rate, depending

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on our consolidated leverage ratio. Accordingly, we are exposed to fluctuations in interest rates. Based on the \$259.5 million principal outstanding under our Term Loan as of March 29, 2015, each hundred basis point change in LIBOR, once LIBOR exceeds the LIBOR floor under our loan of 1.00%, would result in a change in interest expense by \$2.6 million annually.

On April 17, 2015, we refinanced our Credit Facility, which, based on rates in effect would reduce interest expense by \$5.0 million annually. See Note 14 "Subsequent Events" of our unaudited consolidated financial statements for additional information about the refinancing.

This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

#### **Item 4. Controls and Procedures.**

##### ***Evaluation of Disclosure Controls and Procedures***

We maintain a system of disclosure controls and procedures (as defined in Rules 13a- 15(e) and 15d- 15(e)) designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures under the Exchange Act as of March 29, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective.

##### ***Changes in Internal Control Over Financial Reporting***

During the quarterly period ended March 29, 2015, there were no changes in our internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time we are a party to legal proceedings, including matters involving personnel and employment issues, product liability, personal injury, intellectual property and other proceedings arising in the ordinary course of business, which have not resulted in any material losses to date. Although management does not expect that the outcome in these proceedings will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements of claims that could materially impact our results.

### Item 1A. Risk Factors.

*Certain factors may have a material adverse effect on our business, financial condition and results of operations. You should carefully consider the risks and uncertainties referenced below, together with all of the other information in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes. Any of those risks could materially and adversely affect our business, operating results, financial condition, or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment.*

There have been no material changes to the Risk Factors described under “Part I – Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

### Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
10.1	Form of Stock Option Agreement under Sprouts Farmers Market, Inc. 2013 Incentive Plan
10.2	Form of Restricted Stock Unit Agreement under Sprouts Farmers Market, Inc. 2013 Incentive Plan
10.3	Form of Performance Share Award Agreement under Sprouts Farmers Market, Inc. 2013 Incentive Plan
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

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<u>Exhibit Number</u>	<u>Description</u>
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SPROUTS FARMERS MARKET, INC.**

Date: May 7, 2015

By: /s/ Amin N. Maredia

Name: Amin N. Maredia

Title: Chief Financial Officer  
(Principal Financial Officer)



## EXHIBIT INDEX

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29

[\(Back To Top\)](#)

## Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

### SPROUTS FARMERS MARKET, INC. STOCK OPTION AGREEMENT

#### Cover Sheet

Sprouts Farmers Market, Inc., a company organized under the laws of the State of Delaware ("Company"), hereby grants an option to acquire its Shares (the "Option") to the individual named below. The terms and conditions of the Option are set forth in this cover sheet (the "Cover Sheet"), in the attached Stock Option Agreement (the "Agreement") and in the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the attached Stock Option Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Grant Date:**

**Shares subject to the Option:**

**Exercise Price per Share:**

**Expiration Date:**

**Vesting Schedule:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan. If you do not sign and return this Cover Sheet within 60 days of the Grant Date, the Company will have the right to rescind this award.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**SPROUTS FARMERS MARKET, INC.**

By: \_\_\_\_\_

Name: Doug Sanders  
Title: Chief Executive Officer

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**SPROUTS FARMERS MARKET, INC.**  
**2013 INCENTIVE PLAN**  
**STOCK OPTION AGREEMENT**

<b>Nonstatutory Stock Option</b>	This Option is not intended to be an incentive stock option under section 422 of the Internal Revenue Code and will be interpreted accordingly.
<b>Vesting</b>	<p>Your right to exercise this Option vests at the times and in the manner as shown on the Cover Sheet.</p> <p>This Option will cease vesting as of the date your employment with the Company and its Affiliates has terminated for any reason.</p>
<b>Termination</b>	<p>Should your employment with the Company terminate for any reason except pursuant to a Change of Control as described below, the portion of your Option that is not then vested will immediately terminate, and, except as provided below, the portion that is then vested will terminate at the close of business at the Company's registered office on the 90th day after your termination date. Your Option will expire in any event at the close of business at the Company's registered office on the seventh anniversary of the Option Grant Date, as shown on the Cover Sheet.</p> <p>The grant of the Option does not confer upon you any right to continued employment with the Company or interfere with the Company's right to terminate your employment at any time.</p>
<b>Death</b>	If your employment terminates because of your death, your right to purchase vested Shares under this Option will expire at the close of business at the Company's registered office on the date that is six months and one day after the date of death (or on the seventh anniversary of the Option Grant Date, if earlier). During that period, your estate or heirs may exercise this Option.
<b>Disability</b>	If your employment terminates because of a disability which qualifies you for disability benefits under the Company's long term disability plan, then your right to purchase vested Shares under this Option will expire at the close of business at the Company's registered office on the date that is six months and one day after your termination date (or on the seventh anniversary of the Option Grant Date, if earlier).
<b>Termination for Cause; Specified Conduct</b>	If your employment is terminated for Cause (as defined in Exhibit A) or following any termination of your employment you engage in Specified Conduct (as defined in Exhibit A), the Option, whether or not vested, will immediately terminate.
<b>Change in Control</b>	<p>Notwithstanding the foregoing:</p> <p>(A) if there occurs a Change in Control (as defined in Exhibit A), and the Option, to the extent then outstanding, does not continue or is not assumed by an acquiror on a substantially equivalent basis, then the Option will become vested and exercisable immediately prior to the Change in Control; and</p> <p>(B) if there occurs a Change in Control, and the Option continues or</p>

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is assumed by an acquiror on a substantially equivalent basis, and your employment is terminated by the Company or an acquiror without Cause or by you for Good Reason (as defined in Exhibit A), in each case within 24 months following the Change in Control, then the Option will become vested and exercisable immediately upon such termination.

**Restrictions on Exercise**

The Company will not permit you to exercise this Option if the issuance of Shares at that time would violate any law, regulation or Company policy.

**Notice of Exercise**

When you wish to exercise this Option, you must complete and execute such documents, if any, and complete such processes, that the Company or a securities broker approved by the Company may require to accomplish the Option exercise ("Notice of Exercise").

If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

**Form of Payment**

When you submit your Notice of Exercise, you must include payment of the exercise price for the Shares you are purchasing, along with applicable withholding taxes. Payment may be made in one (or a combination) of the following forms:

- Your personal check, a cashier's check or a money order.
- If permitted by the Company, irrevocable directions to a securities broker approved by the Company to sell your Shares subject to the Option and to deliver all or a portion of the sale proceeds to the Company in payment of the exercise price and applicable withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing forms, if any, provided by the Company or the securities broker.

**Taxes**

When you exercise any portion of the Option, the Company will withhold taxes as required by applicable law, and your ability to exercise any portion of the Option is conditional upon your making arrangements satisfactory to the Company, in accordance with the methods set forth above, to enable it to satisfy its withholding obligation.

**Restrictions on Resale**

By signing this Agreement, you agree not to sell any Shares received upon exercise of the Option at a time when applicable laws, regulations or Company policies prohibit a sale.

**Transfer of Option**

Prior to your death, only you may exercise this Option. You cannot transfer or assign this Option. For instance, you may not sell this Option or use it as security for a loan. If you attempt to do any of these things, this Option will immediately become invalid. You may, however, dispose of this Option in your will.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to honor a Notice of Exercise from your former spouse, nor is the

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Company or the securities broker obligated to recognize your former spouse's interest in your Option in any other way.

**Stockholder Rights**

You, or your estate or heirs, have no rights as a stockholder of the Company with respect to the Shares subject to the Option until a proper Notice of Exercise has been submitted and the exercise price and withholding taxes have been tendered. No adjustments are made for dividends or other rights if the applicable record date occurs before a proper Notice of Exercise has been submitted and the exercise price has been tendered, except as described in the Plan.

**Applicable Law**

This Agreement will be interpreted and enforced under the laws of the State of Delaware.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.

This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this Option are superseded.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

### Certain Definitions

“Affiliate” means, when used with reference to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, or owns greater than fifty percent (50%) of the voting power in the specified Person (the term “control” for this purpose shall mean the ability, whether by the ownership of shares or other equity interest, by contract or otherwise, to elect a majority of the directors of a corporation, independently to select the managing partner of a partnership or the managing member or the majority of the managers, as applicable, of a limited liability company, or otherwise to have the power independently to remove and then select a majority of those Persons exercising governing authority over an entity, and control shall be conclusively presumed in the case of the direct or indirect ownership of fifty percent (50%) or more of the voting equity interests in the specified Person).

“Cause” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of cause, then Cause shall mean that you have (i) committed a felony or a crime involving moral turpitude, (ii) committed any act of gross negligence or fraud, (iii) failed, refused or neglected to substantially perform your duties (other than by reason of a physical or mental impairment) or to implement the reasonable directives of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), (iv) materially violated any policy of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), or (v) engaged in conduct that is materially injurious to the Company, monetarily or otherwise.

“Change in Control” shall mean:

- (i) any event occurs the result of which is that any “person,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act, becomes the “beneficial owner”, as defined in Rules 13d-3 and 13d-5 under the Exchange Act directly or indirectly, of more than 50% of the voting stock of the Company or any successor company thereto, including, without limitation, through a merger or consolidation or purchase of voting stock of the Company; provided that the transfer of 100% of the voting stock of the Company to a Person that has an ownership structure identical to that of the Company prior to such transfer, such that the Company becomes a wholly owned subsidiary of such Person, shall not be treated as a Change in Control;
- (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board then in office;
- (iii) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of the Company and its consolidated subsidiaries taken as a whole to any Person or group of related Persons; or
- (iv) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Good Reason” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of good reason, then Good Reason shall mean that the Company or its Affiliates (i) has required that you relocate to a principal place of employment that is more than 50 miles from your then-current principal place of employment; (ii) has reduced, or has notified you of its intent to reduce, your base salary by more than 10%, unless such reduction is agreed to by you or is involuntarily imposed upon all other employees of the Company who are similarly situated to you; or (iii) without your consent, materially diminishes your authority or responsibilities; provided, however, that in the event you believe any of the forgoing conditions exist that constitute Good Reason, prior to Good Reason being established, you will first provide notice to the Company and give the Company a reasonable opportunity (not to exceed thirty (30) calendar days) to cure the condition you contend establishes Good Reason.

“Person” means and includes any individual, partnership, joint venture, corporation, limited liability company, estate, trust, or other entity.

“Specified Conduct” means, if you are party to an employment agreement that contains post-termination restrictive covenants, a breach of any such covenant, or if you are not party to an employment agreement that contains post-termination restrictive covenants, your (i) unauthorized disclosure of confidential information relating to the Company or its Affiliates, (ii) engaging, directly or indirectly, as an employee, partner, consultant, director, stockholder (other than as a passive investor in not more than 5% of the shares of any publicly traded class of securities of any business), owner, or agent in any business that is competitive with the businesses conducted by the Company and its Affiliates at the time of termination of your employment, (iii) soliciting or inducing, directly or indirectly, any former, present or prospective customer or client of the Company or its Affiliates to purchase any services or products offered by the Company or its Affiliates from any Person other than the Company or its Affiliates, or (iv) hiring, directly or indirectly, any individual who was an employee of the Company or its Affiliates within the six month period prior to termination of your employment, or soliciting or inducing, directly or indirectly, any such individual to terminate his or her employment with the Company or its Affiliates.

-6-

[\(Back To Top\)](#)

## Section 3: EX-10.2 (EX-10.2)

Exhibit 10.2

### SPROUTS FARMERS MARKET, INC. RSU AGREEMENT

#### Cover Sheet

Sprouts Farmers Market, Inc., a company organized under the laws of the State of Delaware (“Company”), hereby grants an award of restricted stock units (“RSUs”) to the individual named below. The terms and conditions of the RSUs are set forth in this cover sheet (“Cover Sheet”), in the attached RSU Agreement (the “Agreement”) and in the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the “Plan”). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Grant Date:**

**Number of RSUs:**

**Vesting Schedule:**

**Delivery of Shares:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan. If you do not sign and return this Cover Sheet and the attached Irrevocable Standing Order to Sell Shares within 60 days of the Grant Date, the Company will have the right to rescind this award.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**SPROUTS FARMERS MARKET, INC.**

By: \_\_\_\_\_

Name: Doug Sanders

Title: Chief Executive Officer

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**SPROUTS FARMERS MARKET, INC.**  
**2013 INCENTIVE PLAN**  
**RSU AGREEMENT**

**Right to Shares**

The award of RSUs represents your right to receive, and the Company's obligation to deliver, one Share per RSU, subject to the terms and conditions of this Agreement, the Plan and the Cover Sheet.

**Vesting**

The RSUs awarded to you will vest in accordance with the schedule set forth in the Cover Sheet.

All RSUs will cease vesting as of the date your employment with the Company and its Affiliates has terminated for any reason.

**Delivery; Settlement**

As and when RSUs vest, a number of Shares equal to the number of such RSUs shall be delivered as soon as practicable thereafter in settlement of such RSUs, and upon such delivery, you shall have no further rights with respect to those RSUs.

**Change in Control**

Notwithstanding the foregoing:

(A) if there occurs a Change in Control (as defined in Exhibit A), and this award does not continue or is not assumed by an acquiror on a substantially equivalent basis, then all RSUs that have not yet vested shall vest immediately prior to the Change in Control; and

(B) if there occurs a Change in Control, and this award continues or is assumed by an acquiror on a substantially equivalent basis, and your employment is terminated by the Company or an acquiror without Cause (as defined in Exhibit A) or by you for Good Reason (as defined in Exhibit A), in each case within 24 months following the Change in Control, then all RSUs that have not yet vested shall vest immediately on your date of termination.

**Termination**

Should your employment with the Company and its Affiliates terminate for any reason except pursuant to a Change in Control as described above, all of your RSUs then outstanding will terminate, and you will no longer have any right to receive any Shares in respect of such RSUs. The grant of RSUs does not confer upon you any right to continued employment with the Company or interfere with the Company's right to terminate your employment at any time.

**Taxes**

When Shares are delivered to you upon settlement of any of your RSUs, the Company is required to withhold taxes pursuant to applicable law. The Company will satisfy this withholding obligation through a "sell to cover" whereby you irrevocably direct a securities broker approved by the Company to sell a portion of your Shares subject to the RSUs upon vesting and to deliver the sale proceeds to the Company in payment of the applicable withholding taxes. You agree to provide these directions by signing and returning the Irrevocable Standing Order to Sell Shares attached hereto, along with a signed copy of the Cover Sheet, within 60 days of the Grant Date.

The number of Shares that the broker will sell will be based on an estimate made by the broker of the Shares required to be sold to satisfy the withholding taxes. You agree that the proceeds received from the sale of Shares will be used to satisfy the withholding taxes and, accordingly, you authorize the broker to pay such proceeds to the Company for such purpose. To the extent that the proceeds obtained by such sale exceed the amount necessary to satisfy the withholding taxes, such excess proceeds shall be



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deposited into your brokerage account and in the event of a shortfall, additional Shares may be sold and/or cash withholding may be required from you. Any remaining Shares shall be deposited into your brokerage account.

If there is not a market in the Shares or the Company determines in its sole discretion that the sell to cover procedure is not advisable or sufficient, the Company will have the right to make other arrangements to satisfy the withholding taxes due upon issuance of the Shares with respect to the RSUs, including, but not limited to, the right to deduct amounts from salary or payments of any kind otherwise due to the Participant or withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the statutory minimum withholding amount. If such other arrangements are made, your Irrevocable Standing Order to Sell Shares will be voided.

You represent to the Company that, as of the date you sign the Irrevocable Standing Order to Sell Shares, you are not aware of any material nonpublic information about the Company or the Shares. You and the Company have structured this Agreement to constitute a "binding contract" relating to the sale of Shares, consistent with the affirmative defense to liability under Section 10(b) of the Exchange Act under Rule 10b5-1(c) issued under such Act.

#### **Restrictions on Resale and Settlement**

By signing this Agreement, you agree not to sell any Shares received upon settlement of RSUs at a time when applicable laws, regulations or Company policies prohibit a sale.

The Company's obligation to deliver Shares upon settlement of the RSUs shall be subject to applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate to comply with relevant securities laws and regulations.

#### **Transfer of RSUs**

You cannot transfer or assign RSUs or your right to receive Shares upon settlement of RSUs. For instance, you may not sell RSUs or use them as security for a loan. If you attempt to do any of these things, your RSUs will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse's interest in your RSUs in any way.

**Stockholder Rights; Dividend Equivalent Rights** You, or your estate or heirs, have no rights as a stockholder of the Company in respect of RSUs until Shares have been delivered in settlement of the RSUs. No adjustments are made for dividends or other rights if the applicable record date occurs before Shares are delivered, except as described in the Plan.

However, to the extent you hold RSUs on the record date of any cash dividend on Shares, you will be entitled to a payment in an amount, per RSU held, equal to the amount of the cash dividend declared and paid in respect of one Share. This Dividend Equivalent Right will be included in your regular compensation for the pay period during which the actual cash dividend is paid, and will be subject to applicable withholding taxes.

#### **Applicable Law**

This Agreement will be interpreted and enforced under the laws of the State of Delaware.

#### **The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.

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This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the RSUs. Any prior agreements, commitments or negotiations concerning the RSUs are superseded.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

### Certain Definitions

“Affiliate” means, when used with reference to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, or owns greater than fifty percent (50%) of the voting power in, the specified Person (the term “control” for this purpose shall mean the ability, whether by the ownership of shares or other equity interest, by contract or otherwise, to elect a majority of the directors of a corporation, independently to select the managing partner of a partnership or the managing member or the majority of the managers, as applicable, of a limited liability company, or otherwise to have the power independently to remove and then select a majority of those Persons exercising governing authority over an entity, and control shall be conclusively presumed in the case of the direct or indirect ownership of fifty percent (50%) or more of the voting equity interests in the specified Person).

“Cause” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of cause, then Cause shall mean that you have (i) committed a felony or a crime involving moral turpitude, (ii) committed any act of gross negligence or fraud, (iii) failed, refused or neglected to substantially perform your duties (other than by reason of a physical or mental impairment) or to implement the reasonable directives of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), (iv) materially violated any policy of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), or (v) engaged in conduct that is materially injurious to the Company, monetarily or otherwise.

“Change in Control” shall mean:

- (i) any event occurs the result of which is that any “person,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act, becomes the “beneficial owner”, as defined in Rules 13d-3 and 13d-5 under the Exchange Act directly or indirectly, of more than 50% of the voting stock of the Company or any successor company thereto, including, without limitation, through a merger or consolidation or purchase of voting stock of the Company; provided that the transfer of 100% of the voting stock of the Company to a Person that has an ownership structure identical to that of the Company prior to such transfer, such that the Company becomes a wholly owned subsidiary of such Person, shall not be treated as a Change in Control;
- (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board then in office;
- (iii) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of the Company and its consolidated subsidiaries taken as a whole to any Person or group of related Persons; or
- (iv) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Good Reason” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of good reason, then Good Reason shall mean that the Company or its Affiliates (i) has required that you relocate to a principal place of employment that is more than 50 miles from your then-current principal place of employment; (ii) has reduced, or has notified you of its intent to reduce, your base salary by more than 10%, unless such reduction is agreed to by you or is involuntarily imposed upon all other employees of the

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Company who are similarly situated to you; or (iii) without your consent, materially diminishes your authority or responsibilities; provided, however, that in the event you believe any of the forgoing conditions exist that constitute Good Reason, prior to Good Reason being established, you will first provide notice to the Company and give the Company a reasonable opportunity (not to exceed thirty (30) calendar days) to cure the condition you contend establishes Good Reason.

“Person” means and includes any individual, partnership, joint venture, corporation, limited liability company, estate, trust, or other entity.

**IRREVOCABLE STANDING ORDER TO SELL SHARES**

I have been granted restricted stock units ("RSUs") by Sprouts Farmers Market, Inc. (the "Company"), which is evidenced by a restricted stock unit agreement between me and the Company (the "Agreement," copy attached). Provided that I remain employed by the Company on the applicable vesting date, the shares vest according to the provisions of the Agreement.

I understand that on or as soon as practicable after the vesting date (the "issuance date"), the shares issuable in respect of the RSUs (the "Shares") will be deposited into my account at E\*Trade (the "Broker") and that I will recognize taxable ordinary income as a result. Pursuant to the terms of the Agreement and as a condition of my receipt of the Shares, I understand and agree that, on the issuance date, I must sell a number of shares sufficient to satisfy all withholding taxes applicable to that ordinary income. Therefore, **I hereby direct the Broker to sell, at the market price and on the issuance date (or the first business day thereafter if the issuance date should fall on a day when the market is closed), the number of Shares that the Company informs the Broker is sufficient to satisfy the applicable withholding taxes, which shall be calculated based on the closing price of the Company's ordinary shares on the last trading day before the issuance date.** I understand that the Broker will remit the proceeds to the Company for payment of the withholding taxes.

I understand and agree that by signing below, I am making an Irrevocable Standing Order to Sell Shares which will remain in effect until the issuance date. I also agree that this Irrevocable Standing Order to Sell Shares is in addition to and subject to the terms and conditions of any existing Account Agreement that I have with the Broker.

Signature

Print Name

-7-

[\(Back To Top\)](#)

**Section 4: EX-10.3 (EX-10.3)**

**Exhibit 10.3**

**SPROUTS FARMERS MARKET, INC.  
PERFORMANCE SHARE AWARD AGREEMENT**

**Cover Sheet**

Sprouts Farmers Market, Inc., a company incorporated under the laws of the State of Delaware ("Company"), hereby grants an award of performance shares ("Performance Shares") to the individual named below. The terms and conditions of the Performance Shares are set forth in this cover sheet ("Cover Sheet"), in the attached Performance Share Award Agreement (the "Agreement") and in the Sprouts Farmers Market, Inc. 2013 Incentive Plan (the "Plan"). All capitalized terms used but not defined in this Cover Sheet and the Agreement will have the meanings ascribed to such terms in the Plan.

**Granted to:**

**Grant Date:**

**Number of Performance Shares:**

**Issuance of Shares:**

**Vesting Schedule:**

By signing this Cover Sheet, you agree to all of the terms and conditions described in this Cover Sheet, in the Agreement and in the Plan. If you do not sign and return this Cover Sheet and the attached Irrevocable Standing Order to Sell Shares within 60 days of the Grant Date, the Company will have the right to rescind this award.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**SPROUTS FARMERS MARKET, INC.**

By: \_\_\_\_\_

Name: Doug Sanders

Title: Chief Executive Officer

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**SPROUTS FARMERS MARKET, INC.**  
**2013 INCENTIVE PLAN**  
**PERFORMANCE SHARE AWARD AGREEMENT**

**Right to Shares**

The award of Performance Shares represents your right to receive, and the Company's obligation to issue, one Share for each Performance Share earned, based on the Company's 2015 EPS as set forth in the Cover Sheet. The Shares issued will be subject to the vesting conditions described below. Issuance of Shares equal to the Performance Shares earned will occur as soon as practicable following the date the Compensation Committee certifies 2015 EPS, based on the Company's 2015 audited financial statements (the "Certification Date").

**Vesting**

The Performance Shares issued to you will vest in accordance with the schedule set forth in the Cover Sheet.

All Performance Shares will cease vesting as of the date your employment with the Company and its Affiliates has terminated for any reason.

**Termination; Specified Conduct**

Should your employment with the Company and its Affiliates terminate for any reason or if you engage in Specified Conduct (as defined in Exhibit A) prior to the Certification Date, you shall forfeit all rights to receive any Performance Shares. Should your employment with the Company and its Affiliates terminate for any reason after the Certification Date or if you engage in Specified Conduct after the Certification Date, you shall forfeit all Performance Shares that are not then vested, and such Performance Shares shall be returned to the Company automatically and for no consideration.

**Change in Control**

Notwithstanding the foregoing:

(A) if there occurs a Change in Control (as defined in Exhibit A), and this award does not continue or is not assumed by an acquiror, then (i) if the Change in Control occurs prior to the Certification Date, you will be entitled to receive, immediately prior to the Change in Control, the greater of (x) the maximum number of Performance Shares, multiplied by the fraction (not to exceed 1), the numerator of which is the number of days from January 1, 2015 to the date of the Change in Control, and the denominator of which is 365, or (y) the number of Performance Shares which would have been earned pursuant to the Cover Sheet based on actual EPS through the end of the fiscal quarter that ended prior to the quarter in which the Change in Control occurs, annualized for a full fiscal year, in either case which Performance Shares shall be immediately vested, and (ii) if the Change in Control occurs after the Certification Date, all Performance Shares that have not yet vested shall vest immediately prior to the Change in Control; and

(B) if there occurs a Change in Control, and this award continues or is assumed by an acquiror, and your employment is terminated by the Company or an acquiror without Cause (as defined in Exhibit A) or by you for Good Reason (as defined in Exhibit A), in each case within 24 months following the Change in Control, then (i) if such termination occurs prior to the Certification Date, you will be entitled to receive, as soon as practicable following such termination, the

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maximum number of Performance Shares, multiplied by the fraction (not to exceed 1), the numerator of which is the number of days from January 1, 2015 to the date of such termination, and the denominator of which is 365, which Shares shall be immediately vested, and (ii) if such termination occurs after the Certification Date, all Performance Shares that have not yet vested shall vest immediately upon such termination.

For purposes of the foregoing, this award shall not be treated as continued or assumed unless it is continued or assumed on a substantially equivalent basis, including, without limitation, continuation or assumption of the same Company EPS performance metrics, subject to adjustment in accordance with the Plan only for changes in the number of outstanding Shares by reason of the Change in Control transaction.

## **Taxes**

Unless you make an election under Section 83(b) of the Code within 30 days of the Certification Date, the value of the Performance Shares as and when they vest will be treated as wages subject to payroll withholding. The Company will satisfy the withholding obligation through a "sell to cover" whereby you irrevocably direct a securities broker approved by the Company to sell a portion of your Performance Shares that are then scheduled to vest and to deliver the sale proceeds to the Company in payment of the applicable withholding taxes. You agree to provide these directions by signing and returning the Irrevocable Standing Order to Sell Shares attached hereto, along with a signed copy of the Cover Sheet, within 60 days of the Grant Date.

The number of Shares that the broker will sell will be based on an estimate made by the broker of the Shares required to be sold to satisfy the withholding taxes. You agree that the proceeds received from the sale of Shares will be used to satisfy the withholding taxes and, accordingly, you authorize the broker to pay such proceeds to the Company for such purpose. To the extent that the proceeds obtained by such sale exceed the amount necessary to satisfy the withholding taxes, such excess proceeds shall be deposited into your brokerage account and in the event of a shortfall, additional Shares may be sold and/or cash withholding may be required from you. Any remaining Shares shall be deposited into your brokerage account.

If there is not a market in the Shares or the Company determines in its sole discretion that the sell to cover procedure is not advisable or sufficient, the Company will have the right to make other arrangements to satisfy the withholding taxes due upon the vesting of the Shares with respect to the Performance Shares, including, but not limited to, the right to deduct amounts from salary or payments of any kind otherwise due to the Participant or withhold in Shares (by transferring Shares back to the Company, provided that the Company only withholds the amount of Shares necessary to satisfy the statutory minimum withholding amount. If such other arrangements are made, your Irrevocable Standing Order to Sell Shares will be voided.

You represent to the Company that, as of the date you sign the Irrevocable Standing Order to Sell Shares, you are not aware of any

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material nonpublic information about the Company or the Shares. You and the Company have structured this Agreement to constitute a “binding contract” relating to the sale of Shares, consistent with the affirmative defense to liability under Section 10(b) of the Exchange Act under Rule 10b5-1(c) issued under such Act.

**Restrictions on Resale**

By signing this Agreement, you agree not to sell any Performance Shares at a time when applicable laws, regulations or Company policies prohibit a sale.

In addition, until the Performance Shares have vested pursuant to the schedule set forth in the Cover Sheet, they may not be sold, transferred, assigned, pledged, margined, or otherwise encumbered or disposed of (except for transfers and forfeitures to the Company).

The Company’s obligation to issue Performance Shares upon the Certification Date shall be subject to applicable laws, rules and regulations and also to such approvals by governmental agencies as may be deemed appropriate to comply with relevant securities laws and regulations.

You shall deliver to the Chief Legal Officer of the Company, at the time of execution of this Agreement and/or at such other time or times as the Chief Legal Officer may request, one or more executed stock powers, authorizing the transfer of the Performance Shares to the Company upon forfeiture, and you shall take such other steps or perform such other actions as may be requested by the Chief Legal Officer to effect the transfer of any forfeited Performance Shares.

**Transfer of right to receive Performance Shares**

Prior to the Certification Date, you cannot transfer or assign your right to receive Performance Shares. For instance, you may not sell your right to Performance Shares or use such right as security for a loan. If you attempt to do any of these things, your award will immediately become invalid.

Regardless of any marital property settlement agreement, the Company or a securities broker, as applicable, is not obligated to recognize your former spouse’s interest in your right to Performance Shares in any way.

**Stockholder Rights; Dividend Equivalent Rights**

You, or your estate or heirs, have no rights as a stockholder of the Company in respect of Performance Shares until the Certification Date. No adjustments are made for dividends or other rights if the applicable record date occurs before Shares are issued, except as described in the Plan.

On and following the Certification Date, you shall have the rights as a stockholder, subject to the restrictions set forth in this Agreement (including, without limitation, transfer restrictions and forfeiture during the vesting period).

**Applicable Law**

This Agreement will be interpreted and enforced under the laws of the State of Delaware.

**The Plan and Other Agreements**

The text of the Plan and any amendments thereto are incorporated in this Agreement by reference.



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This Agreement, the Cover Sheet and the Plan constitute the entire understanding between you and the Company regarding the Performance Shares. Any prior agreements, commitments or negotiations concerning the Performance Shares are superseded.

***By signing the Cover Sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan and evidence your acceptance of the powers of the Committee of the Board of Directors of the Company that administers the Plan.***

### Certain Definitions

“Affiliate” means, when used with reference to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, or owns greater than fifty percent (50%) of the voting power in, the specified Person (the term “control” for this purpose shall mean the ability, whether by the ownership of shares or other equity interest, by contract or otherwise, to elect a majority of the directors of a corporation, independently to select the managing partner of a partnership or the managing member or the majority of the managers, as applicable, of a limited liability company, or otherwise to have the power independently to remove and then select a majority of those Persons exercising governing authority over an entity, and control shall be conclusively presumed in the case of the direct or indirect ownership of fifty percent (50%) or more of the voting equity interests in the specified Person).

“Cause” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of cause, then Cause shall mean that you have (i) committed a felony or a crime involving moral turpitude, (ii) committed any act of gross negligence or fraud, (iii) failed, refused or neglected to substantially perform your duties (other than by reason of a physical or mental impairment) or to implement the reasonable directives of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), (iv) materially violated any policy of the Company (which, if deemed curable in the discretion of the Committee, is not cured within 30 days after notice thereof to you by the Committee), or (v) engaged in conduct that is materially injurious to the Company, monetarily or otherwise.

“Change in Control” shall mean:

- (i) any event occurs the result of which is that any “person,” as such term is used in Sections 13(d) and 14(d) of the Exchange Act, becomes the “beneficial owner”, as defined in Rules 13d-3 and 13d-5 under the Exchange Act directly or indirectly, of more than 50% of the voting stock of the Company or any successor company thereto, including, without limitation, through a merger or consolidation or purchase of voting stock of the Company; provided that the transfer of 100% of the voting stock of the Company to a Person that has an ownership structure identical to that of the Company prior to such transfer, such that the Company becomes a wholly owned subsidiary of such Person, shall not be treated as a Change in Control;
- (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constituted the Board, together with any new directors whose election by such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the directors of the Company then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board then in office;
- (iii) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of the Company and its consolidated subsidiaries taken as a whole to any Person or group of related Persons; or
- (iv) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

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“Good Reason” shall have the meaning ascribed thereto in any effective employment agreement between you and the Company or its Affiliates, or if no employment agreement is in effect that contains a definition of good reason, then Good Reason shall mean that the Company or its Affiliates (i) has required that you relocate to a principal place of employment that is more than 50 miles from your then-current principal place of employment; (ii) has reduced, or has notified you of its intent to reduce, your base salary by more than 10%, unless such reduction is agreed to by you or is involuntarily imposed upon all other employees of the Company who are similarly situated to you; or (iii) without your consent, materially diminishes your authority or responsibilities; *provided, however*, that in the event you believe any of the forgoing conditions exist that constitute Good Reason, prior to Good Reason being established, you will first provide notice to the Company and give the Company a reasonable opportunity (not to exceed thirty (30) calendar days) to cure the condition you contend establishes Good Reason.

“Person” means and includes any individual, partnership, joint venture, corporation, limited liability company, estate, trust, or other entity.

“Specified Conduct” means, if you are party to an employment agreement that contains post-termination restrictive covenants, a breach of any such covenant, or if you are not party to an employment agreement that contains post-termination restrictive covenants, your (i) unauthorized disclosure of confidential information relating to the Company or its Affiliates, (ii) engaging, directly or indirectly, as an employee, partner, consultant, director, stockholder (other than as a passive investor in not more than 5% of the shares of any publicly traded class of securities of any business), owner, or agent in any business that is competitive with the businesses conducted by the Company and its Affiliates at the time of termination of your employment, (iii) soliciting or inducing, directly or indirectly, any former, present or prospective customer or client of the Company or its Affiliates to purchase any services or products offered by the Company or its Affiliates from any Person other than the Company or its Affiliates, or (iv) hiring, directly or indirectly, any individual who was an employee of the Company or its Affiliates within the six month period prior to termination of your employment, or soliciting or inducing, directly or indirectly, any such individual to terminate his or her employment with the Company or its Affiliates.

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## IRREVOCABLE STANDING ORDER TO SELL SHARES

I have been granted an award in respect of Performance Shares ("Performance Shares") by Sprouts Farmers Market, Inc. (the "Company"), which is evidenced by a performance share award agreement between me and the Company (the "Agreement," copy attached). Provided that I remain employed by the Company on the applicable vesting date, the shares vest according to the provisions of the Agreement.

I understand that on the Certification Date (as defined in the Agreement), the Performance Shares will be deposited into my account at E\*Trade (the "Broker") and that on the applicable vesting date, I will recognize taxable ordinary income as a result. Pursuant to the terms of the Agreement and as a condition of my receipt of the Shares, I understand and agree that, on the vesting date, I must sell a number of shares sufficient to satisfy all withholding taxes applicable to that ordinary income. Therefore, **I hereby direct the Broker to sell, at the market price and on the vesting date (or the first business day thereafter if the vesting date should fall on a day when the market is closed), the number of Shares that the Company informs the Broker is sufficient to satisfy the applicable withholding taxes, which shall be calculated based on the closing price of the Company's ordinary shares on the last trading day before the vesting date.** I understand that the Broker will remit the proceeds to the Company for payment of the withholding taxes.

I understand and agree that by signing below, I am making an Irrevocable Standing Order to Sell Shares which will remain in effect until the vesting date. I also agree that this Irrevocable Standing Order to Sell Shares is in addition to and subject to the terms and conditions of any existing Account Agreement that I have with the Broker.

Signature

Print Name

-8-

[\(Back To Top\)](#)

## Section 5: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Douglas Sanders, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ J. Douglas Sanders

J. Douglas Sanders  
President and Chief Executive Officer  
(Principal Executive Officer)

[\(Back To Top\)](#)

## Section 6: EX-31.2 (EX-31.2)

**Exhibit 31.2**

### **CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Amin N. Maredia, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprouts Farmers Market, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2015

/s/ Amin N. Maredia

Amin N. Maredia  
Chief Financial Officer  
(Principal Financial Officer)

[\(Back To Top\)](#)

## Section 7: EX-32.1 (EX-32.1)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended March 29, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Douglas Sanders, President and Chief Executive Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ J. Douglas Sanders

J. Douglas Sanders  
President and Chief Executive Officer  
(Principal Executive Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

[\(Back To Top\)](#)

## **Section 8: EX-32.2 (EX-32.2)**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Sprouts Farmers Market, Inc. (the "Company"), on Form 10-Q for the quarterly period ended March 29, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Amin N. Maredia, Chief Financial Officer of the Company, certify, based on my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2015

/s/ Amin N. Maredia

Amin N. Maredia  
Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

[\(Back To Top\)](#)